EURIZON
ASSET MANAGEMENT

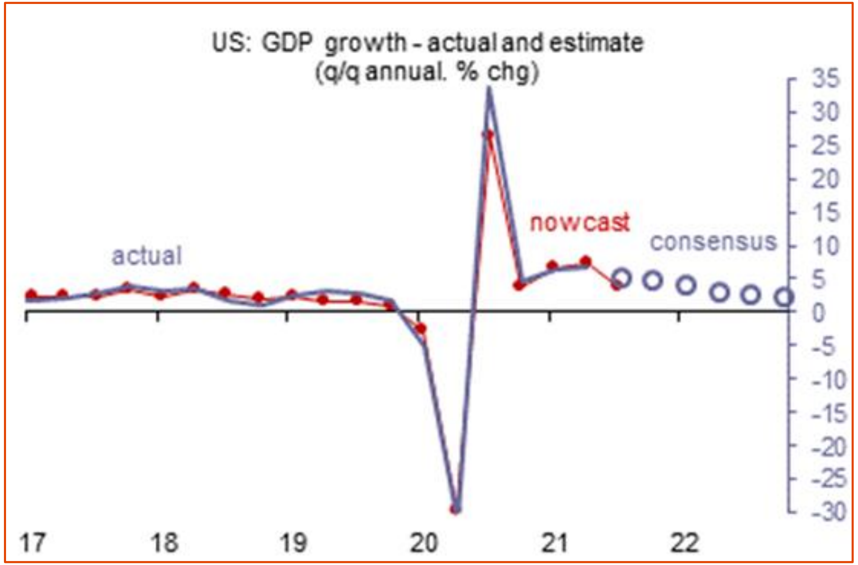
RECOVERY MONITOR: recovery on track, but at a slower pace.

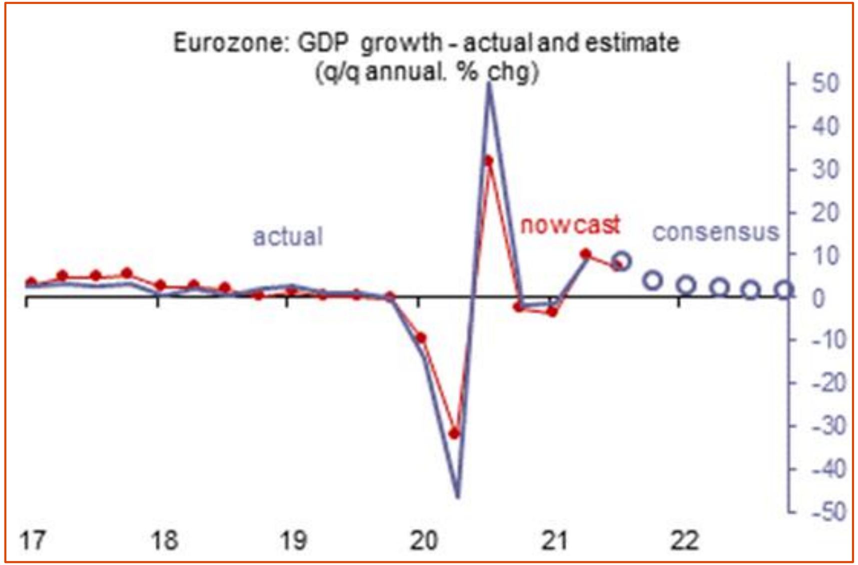
8h October 2021

The Delta variant is not blocking the recovery, that is still on track in the major countries, although at a slower pace than over the spring. The Eurozone, where Covid infections have been fewer, is proving more resilient. In the next few months, supply-side bottlenecks could result in a sharper slowdown than expected, but do not seem serious enough to block the recovery for as long as monetary and fiscal policies remain sufficiently accommodative.

Recent data on the trend of the economy show that the recovery continued during the summer and the start of the autumn.
However, growth lost some steam, in Asia in particular, where progress has been slower in vaccinating the population and infection numbers have increased due to the Delta variant, forcing the governments to reintroduce restrictive measures.
This also applies to China, where growth slowed sharply in the months of July and August, mostly on the consumption side. In addition to the impact of the anti-Covid measures put in place by the government to counter a number of infection clusters, the Chinese slowdown also reflects the tightening of credit conditions pursued by the central government since the beginning of the year. The NECE nowcasting models, that estimate the trend of GDP based on a mix of economic data, including both real activity data and confidence indices, point to a slowdown of China’s GDP growth in 3Q, to 5% y/y from 7.9% y/y previously, that in quarterly terms implies a stagnation (or even a slight contraction) of the economy.

Growth slowed in the United States as well, due to rising infection numbers and higher inflation, that held back consumption. Nowcasting models point to a slowdown in growth from 6.7% in 2Q to around 4% q/q annualised in the summer quarter.
The Eurozone is proving more resilient and is expected to have kept up stronger growth rates, on a par with those recorded over the spring quarter, thanks to the lower number of Covid infections (as a result of the successful vaccination campaign). NECE estimates point to GDP growth of around 8% q/q in annualised terms, but with a high margin of error, given the limited data available for the quarter. More in detail, the latest data on retail sales and industrial output signal downside risks to growth, although these indications should be taken with some caution, as no real activity data are available for the services sector, which is expected to have driven growth, thanks to reopenings.





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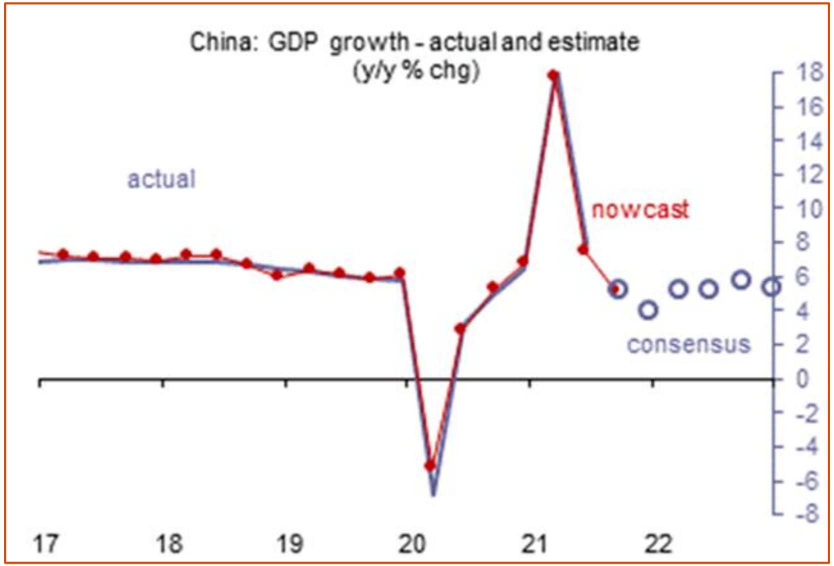
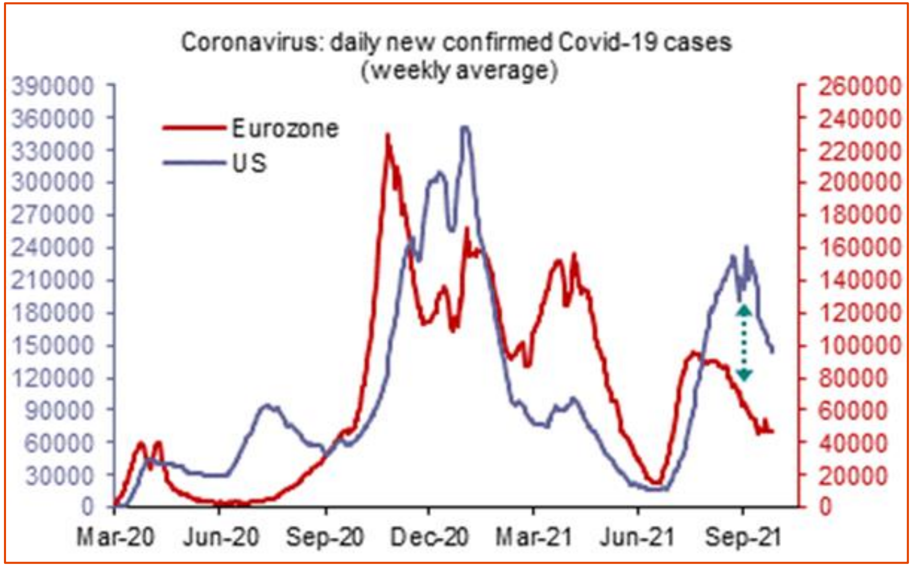
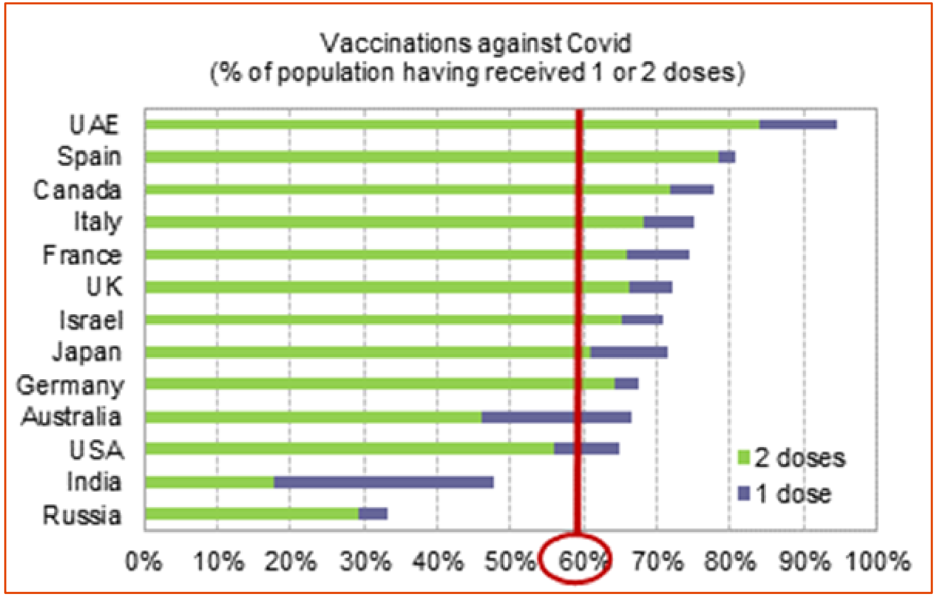


China: GDP growth - actual and estimate
(y/y % chg)
actual
nowcast
consensus
18
16
14
12
10
8
6
4
2
0
-2
-4
-6
-8
17
18
19
20
21
22



Coronavirus: daily new confirmed Covid-19 cases
(weekly average)
Eurozone
US
390000
360000
330000
300000
270000
240000
210000
180000
150000
120000
90000
60000
30000
0
260000
240000
220000
200000
180000
160000
140000
120000
100000
80000
60000
40000
20000
0
Mar-20
Jun-20
Sep-20
Dec-20
Mar-21
Jun-21
Sep-21

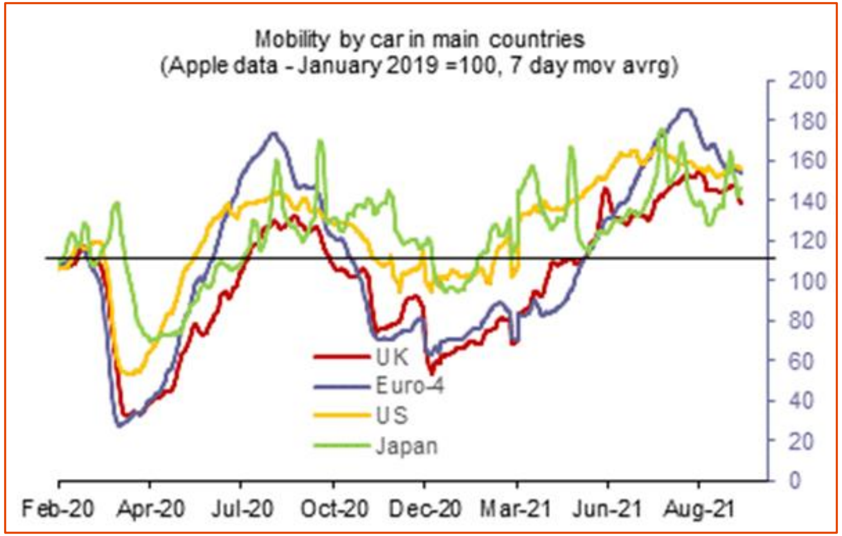

Vaccinations against Covid
(% of population having received 1 or 2 doses)
UAE
Spain
Canada
Italy
France
UK
Israel
Japan
Germany
Australia
USA
India
Russia
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
2 doses
1 dose

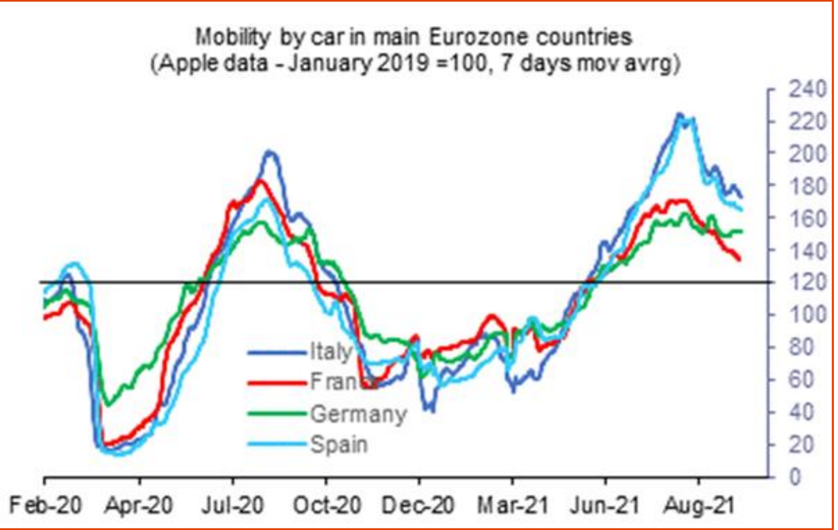
Going forward, the recovery is on course to continue in the autumn and next year, although the maximum acceleration phase is now over.
This should not be of concern, as it is a physiological slowdown tied to the waning thrust provided by reopenings, by now almost complete (at least in the advanced countries).
With the cold season on its way, the number of Covid infections could rise back, but thanks to the extended coverage guaranteed by vaccinations, and to the a new, highly effective antiviral drug (produced by Merck), the hospitalisation and mortality rate will probably stay low, preventing the introduction of new restrictive measures (if not very bland, at worst).
One focus point are supply-side bottlenecks, that are proving more persistent than expected and are resulting in a shortage of commodities and intermediate goods, as well as sharp price increases.
If not promptly overcome, these bottlenecks could cause a sharper slowdown than expected, but do not seem serious enough to block the recovery for as long as monetary and fiscal policies remain sufficiently accommodative. From this point of view, indications are reassuring: the reduction of monetary stimulus by the Fed and the ECB will be very gradual and cautious, with monetary policy staying accommodative. On the fiscal front, the US Congress is close to passing a new infrastructure plan, whereas in the Eurozone the Next Generation EU funds will guarantee that fiscal policy remains expansionary.

The Chinese government’s strategy, on the other hand, is less intelligible: for the time being, is keeping a tightening stance on the fiscal and credit fronts, although it could adjust its approach if the economy risks slowing too much.

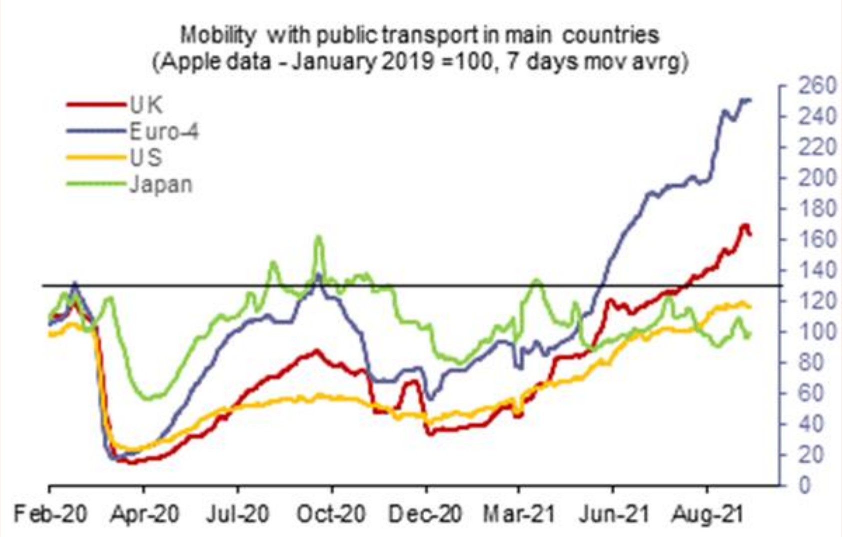
The resilience of the recovery is also confirmed by high frequency indicators, that are now back above, or very close to, pre-Covid levels (see charts below). The trend of restaurant table reservations is particularly indicative of the normalisation under way. The only indices still well below pre-pandemic levels are the ones that measure mobility to the workplace, that reflect the still very widespread use of remote working solutions.

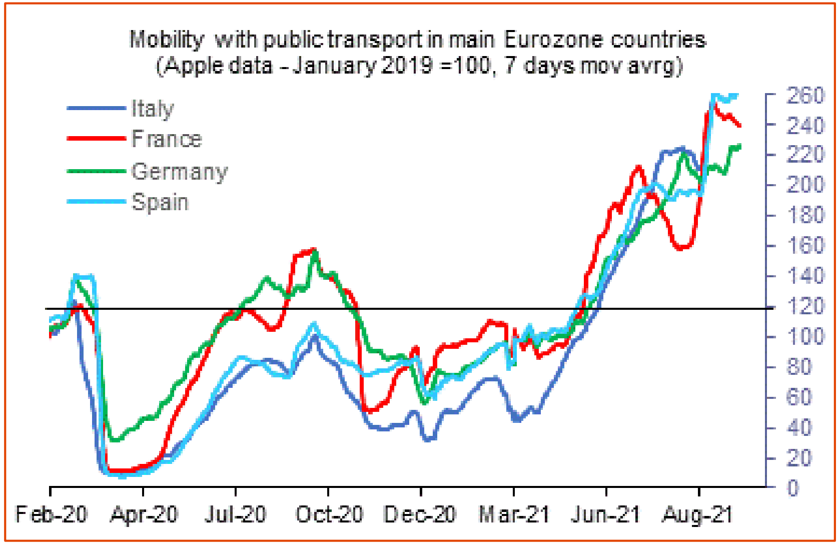
MOBILITY INDICES: Mobility by car



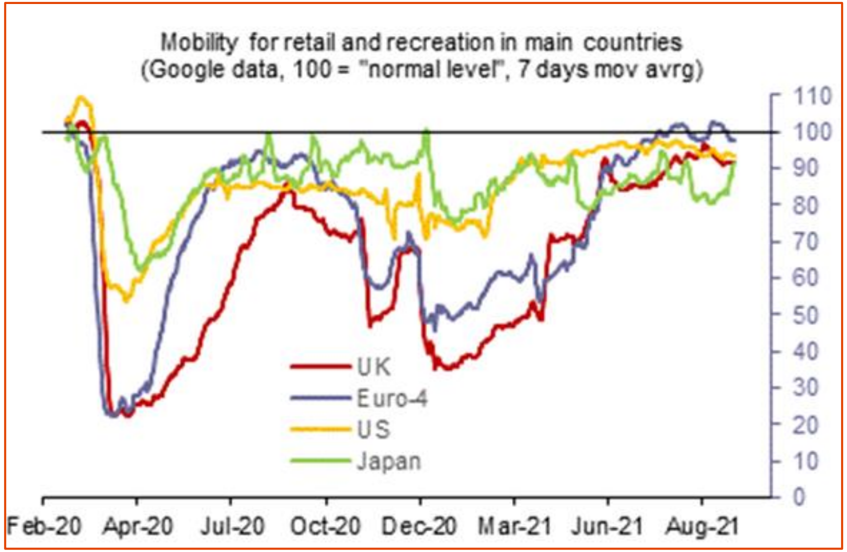


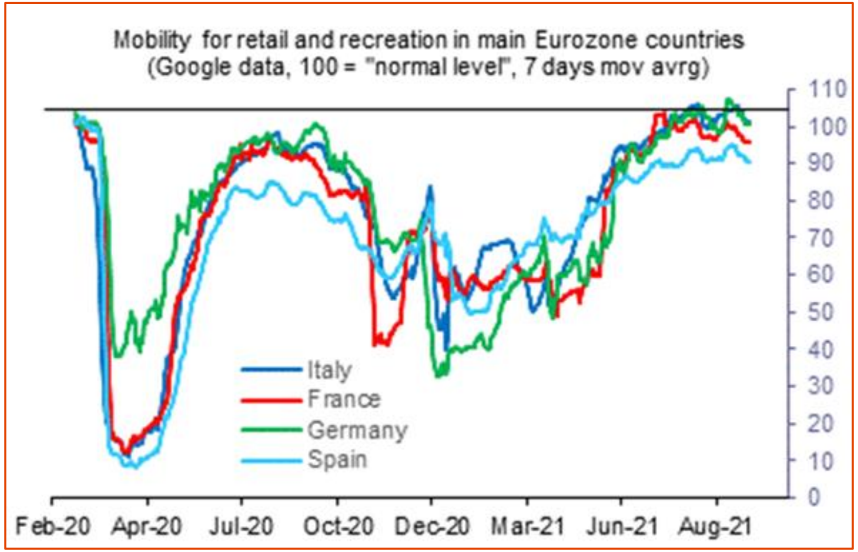
MOBILITY INDICES: Mobility with public transport



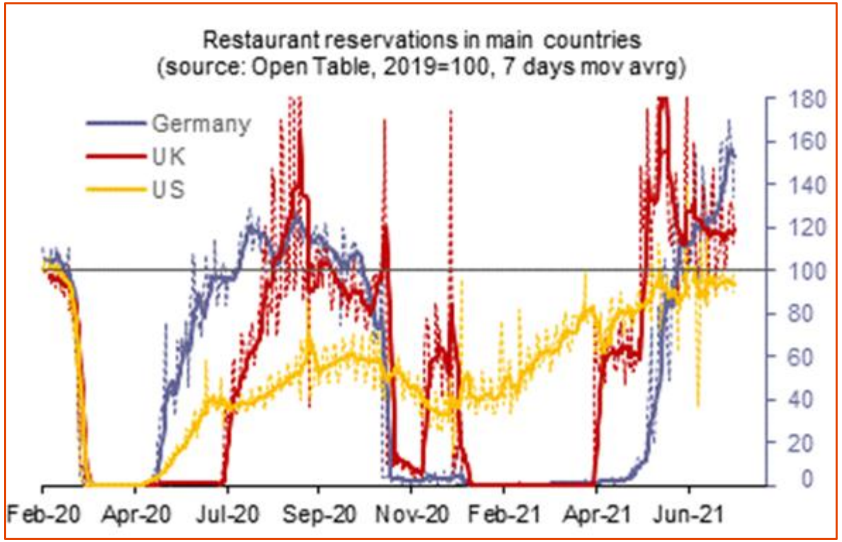


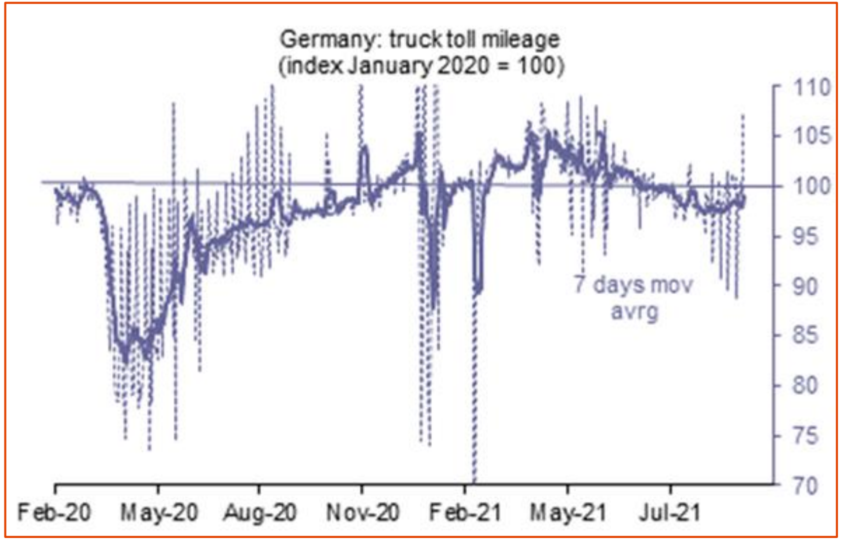
MOBILITY INDICES: Mobility for retail and recreation





Restaurant reservations and truck traffic





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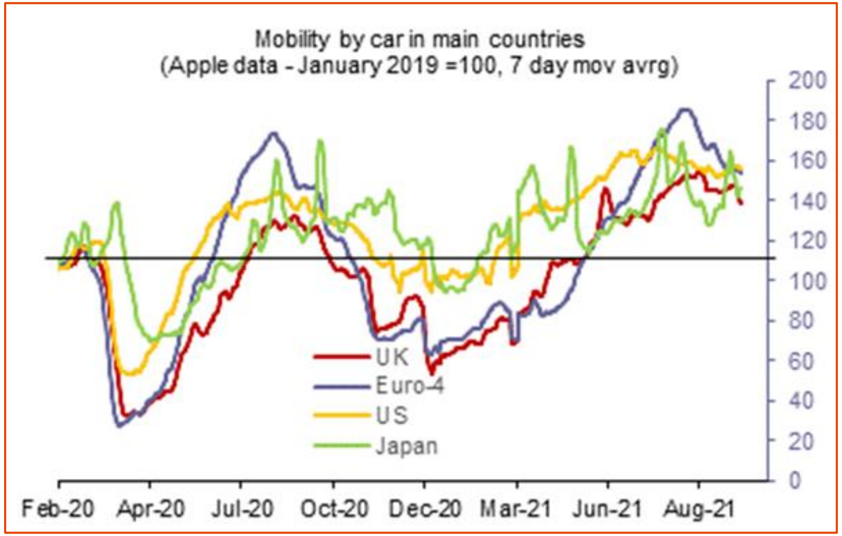
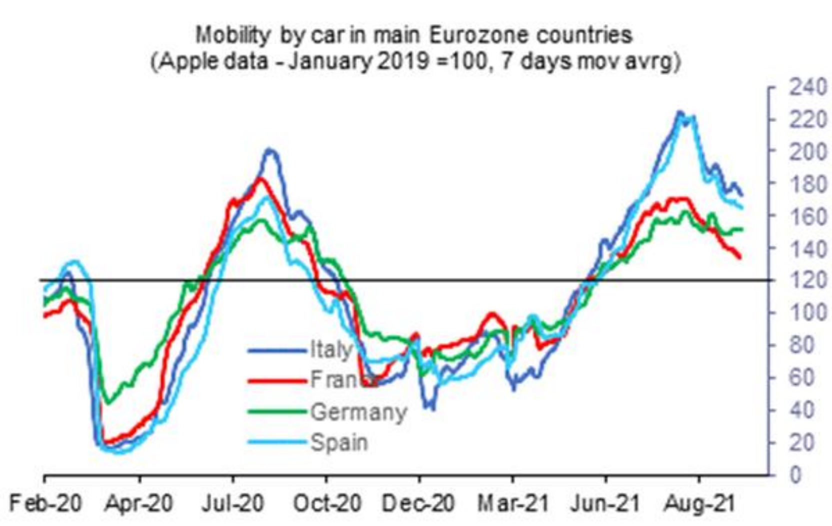
MOBILITY INDICES: Mobility by car





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APPENDIX ON METHODOLOGY

To measure the trend of the economy in the present phase, impacted by the effects of the pandemic, the monthly data we usually consider (and on which NECE forecasts are based) risk providing information that is inadequate for our needs. This is because the information is dated (for instance, in Eurozone countries, real activity data for the closing month of the quarter are made available at a significant lag, of up to a month and a half after the end of the quarter in question), and are often scarcely reliable, as is the case for business confidence data, that are of a "qualitative" nature, therefore inadequate in providing indications on the actual trend of the economy in severe shock phases, such as the one triggered by the pandemic (for instance, both PMI and ISM indices significantly underestimated the size of the contraction of GDP in 2Q 2020, as also the subsequent reacceleration in 3Q). Therefore, we should broaden the horizon and also consider higher-frequency data (daily or weekly), that are able to track the trend of the economy more rapidly, in waiting for monthly real activity data to become available. Such data may also serve as cross-checks for the estimates yielded by NECE Nowcasting models.

The high-frequency data used to track the trend of the recovery are:

- Government response stringency indices provided by Oxford University, that measure the stringency of the restrictive measures put in place by the governments of the main countries. At present, these indices are still at high levels on average, although they overestimate the impact of the pandemic, because they now mostly reflect the compulsory use of face masks indoors and other minor restrictions;

- Mobility indices provided by Apple and Google. Of particular interest to measures the intensity of the recovery are mobility indices to workplaces, and for retail and recreation, two sectors hit particularly hard by the lockdown;

- Data on electricity consumption were of particular interest last year, on occasion of the March-April lockdown, but became less relevant subsequently, following the decision taken by the national governments to avoid the pre-emptive shutdown of production plants (in fact, power consumption had returned to pre-Covid levels already last autumn);

- Restaurant reservations as provided by Open Table and available for some of the major countries, that track of the trend of activity in the restaurant business, one of the most affected by the lockdowns;

- Other high-frequency data, such as truck toll mileage in Germany, that tends to work well as a forward indicator of the trend of industrial output.

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